

April 11, 2000

TO: Senator Sid Snyder, Chairman
Senator Dan McDonald
Representative Hans Dunshee
Representative Brian Thomas
Fred Kiga, Director, DOR
Marty Brown, Director, OFM

FROM: Chang Mook Sohn, Executive Director
Office of the Forecast Council

SUBJECT: APRIL 10, 2000 REVENUE COLLECTION REPORT

General Fund-State collections in the March 11-April 10 period were \$556,000 above the estimate. However, this month's small variance is not indicative of the strength in the economy or revenue. For the second month in a row both the economy and General Fund-State tax receipts were very strong. This month's small variance is due to a data anomaly that distorted reported tax receipts both this month and last month. As noted last month, the implementation of a new document management system by the Department of Revenue caused a delay in the processing of tax returns last month that resulted in an overstatement of Revenue Act receipts. The correction of this problem (for the most part completed this month) results in an understatement of Revenue Act receipts this month. A better gauge of the status of revenue relative to the forecast, as well as of the strength of the economy, is General Fund-State receipts cumulatively since the February forecast. For the two months since the February forecast collections are a whopping \$66.2 million higher than expected. For the month, stronger than expected property tax, real estate excise tax and miscellaneous tax receipts more than offset weaker than expected Revenue Act taxes (retail sales, business and occupation, use and public utility) and lottery General Fund transfers. Cumulatively, Revenue Act receipts account for the vast majority of the positive variance.

Nationally, February employment was up only 7,000, but it jumped 416,000 in March, with the unemployment rate holding at 4.1 percent. The employment numbers as well as most other economic variables indicate that the national economy remains very strong and shows no sign of slowing. The same is true at the state level. While state employment data does not indicate a booming economy (the state added 8,000 jobs in February, but the unemployment rate rose from 4.5 percent in January to 4.7 percent in February) the growth in tax revenue does. Revenue Act receipts this month (primarily reflecting February 2000 business activity) were up 10.8 percent (adjusting for special factors) above the year-ago level. This follows a 9.8 percent increase last month. Growth in the first two months of calendar 2000 is nearly double the 5.6 percent increase in the 4th quarter of 1999. The February forecast assumed that the state's economy and revenue growth would begin to slow in early 2000. Clearly this has not

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happened, in fact revenue and likely economic growth have accelerated. While Fed policy suggests that the economy will eventually slow down, there are no signs of it yet.

Preliminary data on taxes paid, based on February business activity, indicates strong growth in nearly all sectors of the economy. Although the data is incomplete and reflects only the payments of taxpayers reporting both this year and a year ago that have been processed as of April 7th, the data shows amazing strength in several sectors. Payments of taxes by retailers were up 14 percent, lead by an incredible 27 percent increase in payments by auto dealers. Furniture and household equipment retailers reported a 16 percent increase in taxes paid. Outside retailing, the construction sector reported a more than 20 percent increase and all other major sectors with the exception of manufacturing reported double-digit increases. The manufacturing sector reported a decrease in tax payment from a year-ago. This was due in part to a scheduled reduction in aerospace production and in part to the delay of scheduled deliveries due to a strike at Boeing.

Other General Fund taxes collected by the Department of Revenue were \$8.0 million above the estimate for the month. All major sources were above the estimate with property, real estate excise and rental car tax receipts accounting for most of the positive variance in this category. Cumulatively in the two months since the February forecast, Non Revenue Act receipts are \$10.4 million higher than expected with property, cigarette, real estate excise and rental car tax receipts accounting for most of it. Part of the higher than expected property tax payments is believed to be a temporary deviation from expectations and will likely be offset by weaker than expected collections in future months. In addition, most of the \$2.6 million positive variance in the "other" category reflects the rental car tax. Currently, the rental car tax is being deposited into the General Fund. In the February forecast, the rental car tax was assumed to be deposited to a non General Fund account. This will eventually occur, but in the mean time it adds to (and overstates) the positive Non Revenue Act variance.

Real estate excise activity improved in February (February closings reflecting state tax payments in March) despite higher interest rates. Rapid price appreciation accounts for virtually all of the growth. The improvement was modest, with taxable real estate activity up 1.7 percent in February, after declining 6.5 percent in January. Activity has declined in three of the past five months. Even with February's increase, activity for the year-to-date is still 2.4 percent less than a year ago. Statewide real estate transactions have declined for five consecutive months including a 1.3 percent drop in February. The average transaction price, however, continues to increase. This is especially true in the central Puget Sound area. While statewide taxable activity was up 1.7 percent statewide and the average price per transaction was up 3.0 percent, in King, Snohomish and Pierce Counties, taxable activity was up 14 percent while the average price per transaction was up 16 percent.

Other agencies' collections were \$3.6 million below the forecast in March. Department of Licensing General Fund collections were \$0.5 million less than the estimate while lottery General Fund deposits were \$3.2 million less than expected. Cumulatively, lottery General Fund deposits are \$4.5 million less than was expected in the February forecast.

The attached Table 1 provides a comparison of collections with the forecast for the March 11 - April 10, 2000 collection period and cumulatively since the last forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

CMS:cg

Attachments

TABLE 1
Revenue Collection Report
March 11 - April 10, 2000 Collection Compared to the February 2000 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
March 11 - April 10, 2000				
Department of Revenue-Total	\$578,112	\$582,327	\$4,215	0.7%
Revenue Act** (1)	521,496	517,754	(3,742)	-0.7%
Non-Revenue Act(2)	56,616	64,573	7,957	14.1%
Liquor Sales/Liter	5,698	6,017	319	5.6%
Cigarette	5,045	5,838	793	15.7%
Property (State School Levy)	10,879	14,105	3,227	29.7%
Estate	7,769	8,585	816	10.5%
Real Estate Excise	23,599	25,317	1,718	7.3%
Timber (state share)	0	0	0	NA
Other	3,626	4,710	1,084	29.9%
Department of Licensing (2)	675	190	(485)	-71.9%
Lottery (2)	12,308	9,134	(3,174)	-25.8%
Total General Fund-State***	\$591,095	\$591,651	\$556	0.1%
Cumulative Variance Since the February Forecast (February 11 - April 10, 2000)3				
Department of Revenue-Total	\$1,144,320	1,215,672	71,351	6.2%
Revenue Act** (3)	1,032,676	1,093,597	60,921	5.9%
Non-Revenue Act(4)	111,644	122,075	10,431	9.3%
Liquor Sales/Liter	11,458	11,523	65	0.6%
Cigarette	10,311	12,730	2,419	23.5%
Property (State School Levy)	15,617	18,933	3,316	21.2%
Estate	14,817	15,797	980	6.6%
Real Estate Excise	47,202	48,368	1,166	2.5%
Timber (state share)	4,536	4,454	(82)	NA
Other	7,703	10,271	2,567	33.3%
Department of Licensing (4)	1,225	577	(648)	-52.9%
Lottery (4)	24,616	20,112	(4,504)	-18.3%
Total General Fund-State***	\$1,170,162	\$1,236,361	\$66,199	5.7%

1 Collections March 11 - February 10, 2000. Collections primarily reflect February 2000 activity of monthly taxpayers.

2 March 1-31, 2000 collections.

3 Cumulative collections, estimates and variance since the February forecast; (February 11-April 10, 2000) and revisions to history.

4 Cumulative collections, estimates and variance since the February forecast; (February & March 2000) and revisions to history.)

* Based on the February 2000 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue, the Department of Licensing and the Lottery Commission, about 97% of total General Fund-State.

TABLE 2
March 10, 2000 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
February 11 - March 10, 2000				
Department of Revenue-Total	\$633,345	\$633,345	(\$0)	-0.0%
Revenue Act (1)	575,843	575,843	(0)	-0.0%
Non-Revenue Act(2)	57,502	57,502	0	0.0%
Liquor Sales/Liter	5,506	5,506	(0)	-0.0%
Cigarette	6,892	6,892	(0)	-0.0%
Property (State School Levy)	4,828	4,828	(0)	-0.0%
Estate	7,212	7,212	(0)	-0.0%
Real Estate Excise	23,050	23,050	0	0.0%
Timber (state share)	4,454	4,454	0	NA
Other	5,561	5,561	(0)	-0.0%
Department of Licensing (2)	388	388	(0)	-0.1%
Lottery (2)	10,978	10,978	(0)	-0.0%
Total General Fund-State***	\$644,710	\$644,710	\$0	0.0%

Cumulative Variance: February 11 - March 10, 2000 & Revisions to History

Department of Revenue-Total	633,345	\$633,345	(\$0)	-0.0%
Revenue Act (3)	575,843	575,843	(0)	-0.0%
Non-Revenue Act(4)	57,502	57,502	0	0.0%
Liquor Sales/Liter	5,506	5,506	(0)	-0.0%
Cigarette	6,892	6,892	(0)	-0.0%
Property (State School Levy)	4,828	4,828	(0)	-0.0%
Estate	7,212	7,212	(0)	-0.0%
Real Estate Excise	23,050	23,050	0	0.0%
Timber (state share)	4,454	4,454	0	NA
Other	5,561	5,561	(0)	-0.0%
Department of Licensing (4)	388	388	(0)	-0.1%
Lottery (4)	10,978	10,978	(0)	-0.0%
Total General Fund-State***	644,710	\$644,710	\$0	0.0%

P-Preliminary. Reported in the March 10, 2000 collection report.

R Revised data.

1 Collections February 11 - March 10, 2000. Collections primarily reflect January 2000 business activity of monthly taxpayers.

2 February 1-29, 2000 collections.

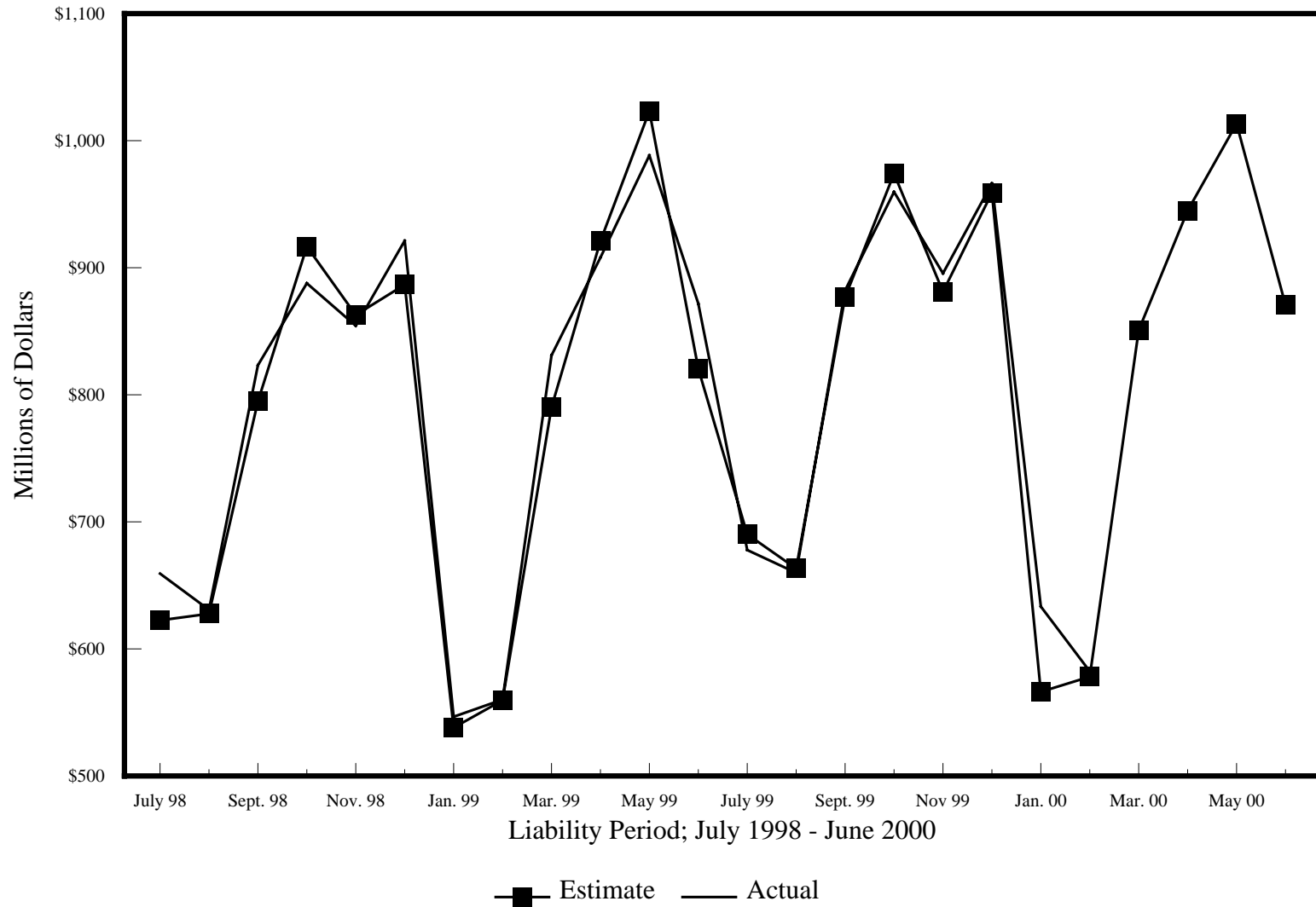
3 Cumulative variance for since the February forecast: February 11 - March 10,2000 & revisions to history.

4 Cumulative variance: since the February forecast (February 2000) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

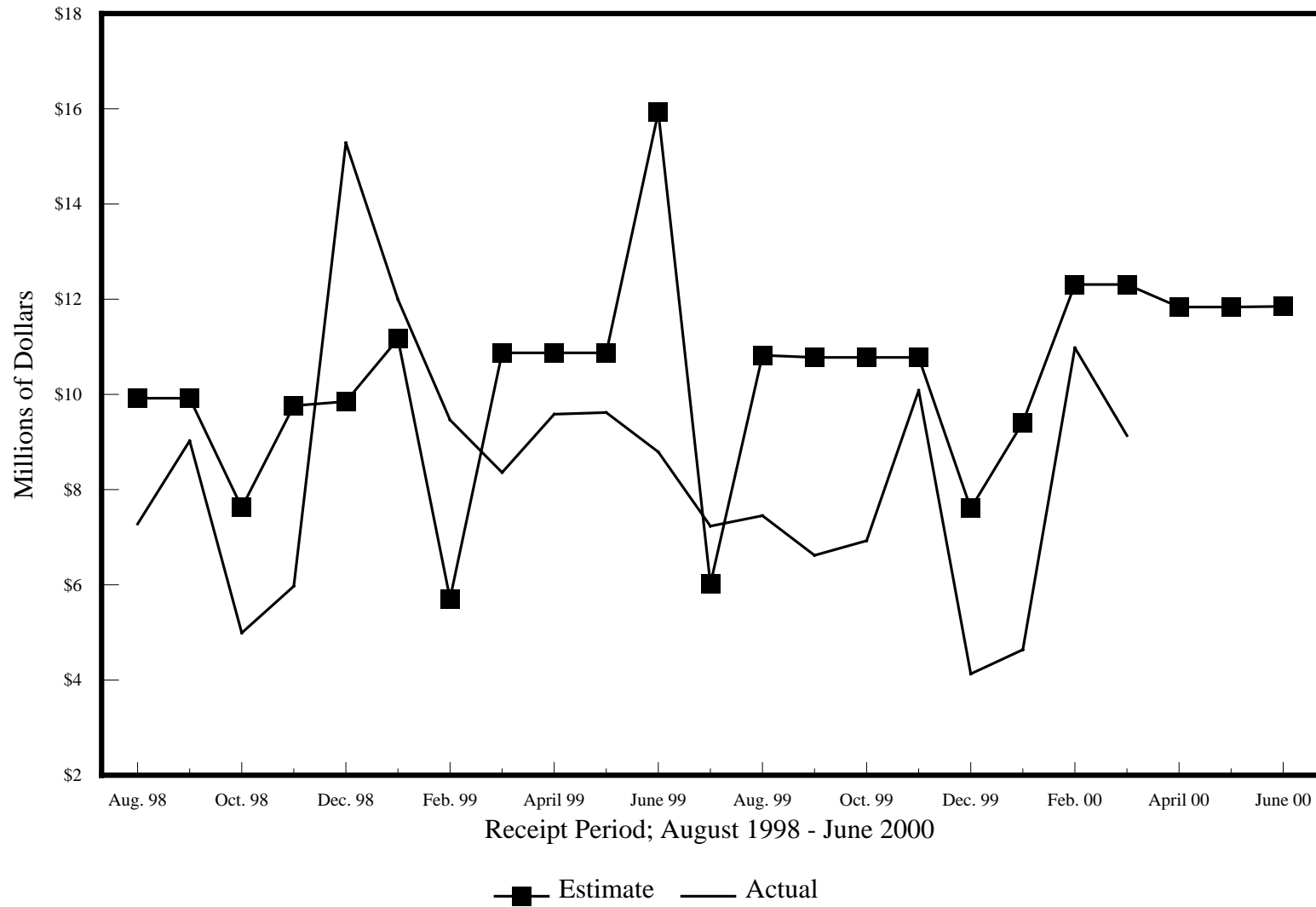
Department of Revenue: General Fund-State, Actual vs. Estimate

July 98 to June 2000



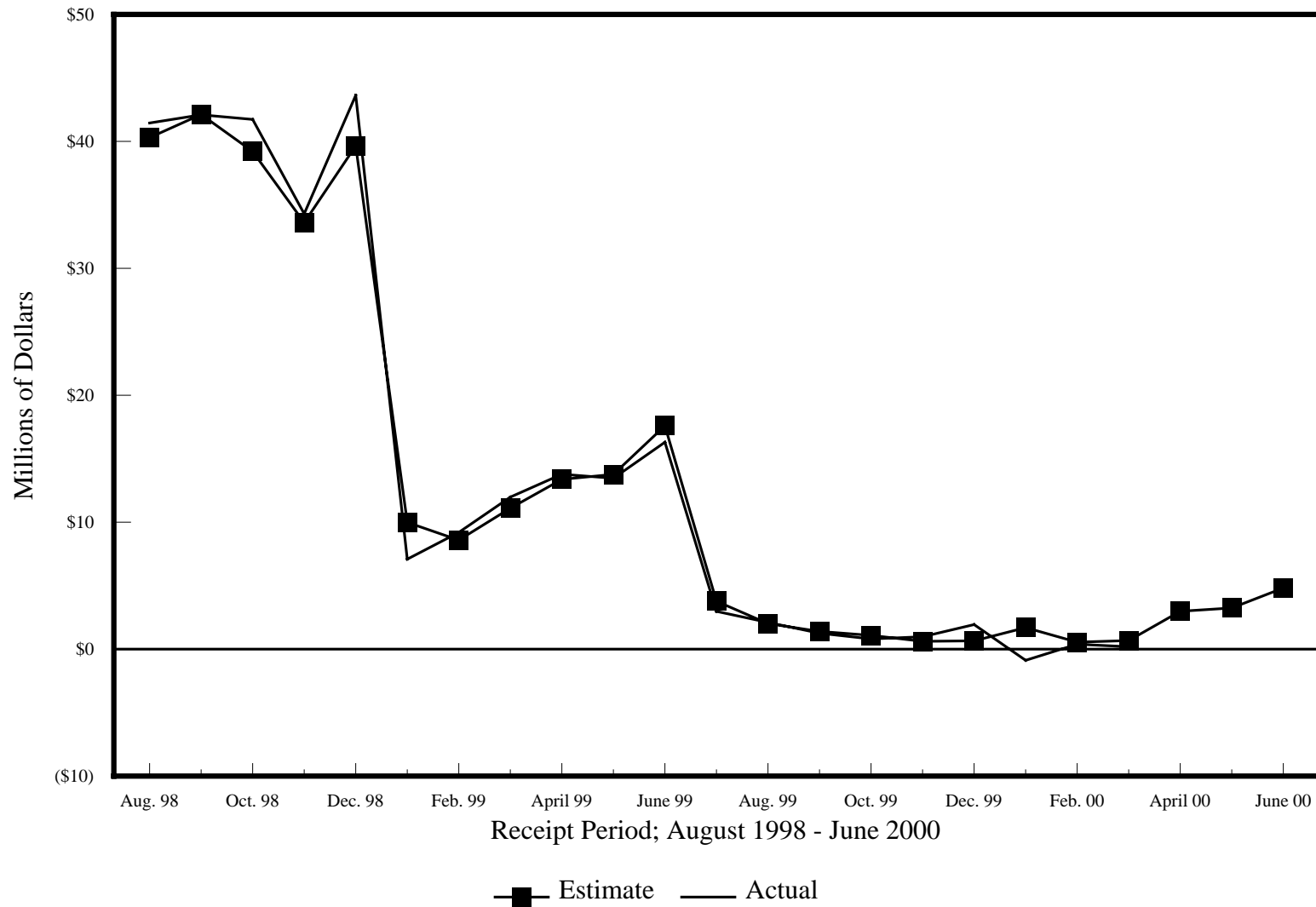
Lottery General Fund-State Transfers, Actual vs. Estimate

August 98 to June 2000



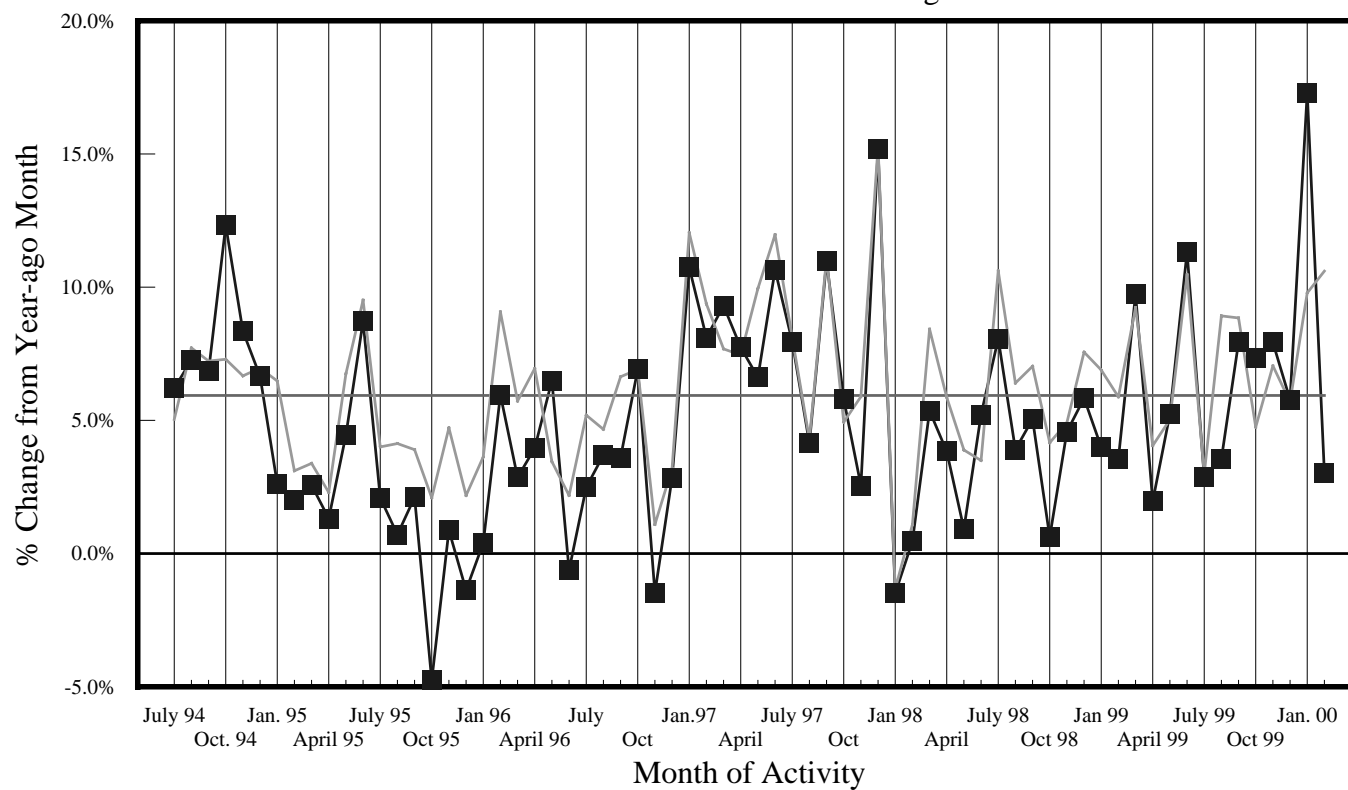
Department of Licensing General Fund-State, Actual vs. Estimate

August 98 to June 2000



Revenue Act Net Collections

Year-over-Year Percent Change



■ % CH from year-ago month

— Ave. Growth fys: 95-98: 5.9% (Adj. for Legislation)

— % Change from year-ago, adjusted for large audits & legislation